Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

Message Text

CONFIDENTIAL

PAGE 01 JAKART 03693 231059Z
ACTION EA-09

INFO OCT-01 ISO-00 AID-05 IGA-02 SP-02 USIA-06 EB-08
NSC-05 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00
COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03
LAB-04 SIL-01 IO-13 OES-06 INT-05 FEA-01 DODE-00
PA-01 PRS-01 AGRE-00 /106 W
----------231107Z 053080 /22
P 230905Z MAR 77
FM AMEMBASSY JAKARTA
TO SECSTATE WASHDC PRIORITY 9976

C O N F I D E N T I A L JAKARTA 3693

E.O. 11652: GDS
TAGS: EAID, ID
SUBJECT: WORLD BANK'S 1977 INDONESIAN REPORT

REF: (A) STATE 59034; (B) JAKARTA 3574

1. PARA 2, REF A. WE WOULD SUGGEST USG OFFICIALS AT IGGI MEETING MIGHT PREFACE ANY DISCUSSION OF LESS FAVORABLE OIL EARNINGS FORECAST WITH BRIEF STATEMENT ALONG FOLLOWING LINES. OUR OWN EXAMINATION OF INDONESIA'S OIL SECTOR, BASED ON IN-FORMATION WHICH WE CONSIDER TO BE RELIABLE, LEADS US TO BELIEVE THAT CONTINUED GROWTH IN OIL EXPORT EARNINGS, AS PROJECTED IN IBRD REPORT, MAY NOT BE REALIZED. ON THE CONTRARY, THE NATURE AND EXTENT OF INDONESIA'S OIL RESERVES, THE PRESENTLY REDUCED LEVEL OF EXPLORATION ACTIVITY, THE PROJECTED INCREASE IN DOMESTIC OIL CONSUMPTION AND POSSIBLE MARKETING UNCERTAINTIES VIS-A-VIS U.S. AND JAPAN ARE, IN OUR VIEW, MORE LIKELY TO RESULT IN A STABILIZATION OF OIL EXPORT EARNINGS OR EVEN A DECLINE IN THOSE EARNINGS WITHIN THE NEXT DECADE. SUCH AN EVENTUALITY WOULD HAVE FUNDAMENTAL AND FAR-REACHING IMPLICATIONS FOR INDONESIA'S ECONOMY WHICH NEED TO BE SERIOUSLY ADDRESSED BY THE GOI AND ALL IGGI MEMBERS. FYI: THE GOI CONTINUES TO BE SENTISTIVE TO ISSUE OF OIL RESERVES AND REVENUES AND CON-
CONFIDENTIAL

CONFIDENTIAL

CERNED GOI OFFICIALS HAVE RECENTLY MADE STATEMENTS IN THE PRESS TO SUPPORT THEIR EARLIER OPTIMISTIC FORECASTS ABOUT OIL RESERVES. THIS GOI SENSITIVITY SHOULD BE CONSIDERED WHEN-EVER IT IS DEEMED NECESSARY TO REFER TO OUR LESS OPTIMISTIC OIL SECTOR ASSESSMENTS. END FYI.

2. QUESTIONS POSED IN REF A REGARDING GOI'S RECOGNITION

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

OF AND POLICY RESPONSE TO PROSPECT OF DECLINGING OIL PRODUCTION
APPEARS TO ASSUME A DEGREE OF SOPHISTICATION IN ANALYSIS,
PLANNING AND IMPLLMENTATION WHICH IN INDONESIAN SITUATION
IS NOT FULLY REALISTIC. GOI'S TECHNICAL COMMITTEE FOR ENERGY
RESOURCES, ACCORDING TO OIL AND GAS DIRECTOR WIJARSO, IS
NOW AT LEAST SEIZED WITH THE PROBLEM AND IS STARTING TO DRAW
UP PLANS WHICH APPEAR TO BE BASED ON MORE REALISTIC ASSUMPTIONS
REGARDING OIL AVAILABILITY BUT THESE PLANS THEMSELVES ARE STILL
IMCOMPLETE AND CERTAINLY A LONG WAY FROM APPROVAL LET ALONE
IMPLEMENTATION. FORTUNATELY, THE FIVE-YEAR HIATUS IN MINING
SECTOR INVESTMENT NOW APPEARS TO BE ENDING FOLLOWING THE PROMUL-
GATION OF THE THIRD GENERATION MINING DECRES AND THE APPARENTLY
SUCCESSFUL CONCLUSION OF CONTRACT NEGOTIATIONS BETWEEN THE
GOI AND RIO TINTO. (SEE JAKARTA 3498) HOPEFULLY, THESE
DEVELOPMENTS WILL LEAD TO NEW INVESTMENTS TO EXPLOIT INDONESIA'S
NON-OIL MINERAL RESOURCES BUT THE COINCIDENCE OF THESE
DEVELOTPMENTS WITH NEW REALISM WITH RESPECT TO THE OIL SECTOR
APPEARS TO BE MORE FORTUITOUS THAN INTENTIONAL.

3. WITH RESPECT TO PARA 5, REF A, WE BELIEVE WORLD BANK STATE-
MENT OF GOI INDUSTRIALIZATION POLICY GOES CONSIDERABLY
BEYOND WHAT GOI ITSELF HAS ARTICULATED. AS AN EXAMPLE WE
CITE A RECENTLY ISSUED 40-PAGE DEPARTMENT OF INDUSTR PUBLI-
CATION TITLED "NATIONAL INDUSTRY DEVELOPMENT PATTERN," WHICH
IS HEAVY ON GENERALITIES BUT LIGHT ON THE DETAILS OF HOW THE
GOI INTENDS TO ACHIEVE INDUSTRIALIZATION. THE DOCUMENT TAKES
STOCK OF THE ASSETS ON WHICH INDONESIAN INDUSTRIAL STRATEGY
IS TO BE BASED, AND ENUMERATES AT SOME LENGTH THE BENEFITS
WHICH ARE EXPECTED FROM GREATER INDUSTRILZATION. THESE IN-
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 JAKART 03693 231059Z

CLUDE, INTER ALIA, SATISFACTION OF DOMESTIC DEMAND FOR FOOD,
CLOTHING, HOUSING AND SERVICES; EMPLOYMENT CREATION; TECH-
NOLOGICAL ADVANCE; GEOGRAPHICAL DISPERSEMENT OF INDUSTRY AND
HARMONIOUS ECONOMIC DEVELOPMENT; AND ENHANCEMENT OF DOMESTIC
ENTREPRENEURSHIP AND OTHER CAPABILITIES. HOWEVER, THERE ARE
NOT CLEARLY DISCERNIBLE STAGES OF DEVELOPMENT OR REQUIREMENTS
THAT CERTAIN INDUSTRIES OR SECTORS RECEIVE EMPHASIS OVER
OTHERS.

4. THE NEAREST THING TO A PRIORITY RANKING IS THE GOI'S
RECOGNITION OF "BASIC AND KEY INDUSTRIES," WHICH "UTILIZE
NATURAL RESOURCES, ARE AIMED AT SATISFYING BOTH DOMESTIC AND
EXPORT REQUIREMENTS, TEND TO BE CAPITAL INTENSIVE AND USE THE
LATEST TECHNOLOGY." THE DEVELOPMENT OF THESE INDUSTRIES
IS EXPECTED TO HAVE "MULTIPLE LEVERAGE IN STIMULATING THE
DEVELOPMENT OF OTHER RELATED INDUSTRIES AS WELL AS OTHER
ECONOMIC ACTIVITIES SO THAT THEY ARE CAPABLE OF BECOMING THE
MOBILIZING THE DISSEMINATING VEHICLE FOR DEVELOPMENT." HOW-
EVER, DESPITE THIS STATEMENT OF EXPECTATIONS, THERE IS NO

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

EVIDENCE THAT THESE INDUSTRIES ARE TO BE EMPHASIZED IN THE GOI'S INDUSTRIAL DEVELOPMENT PROCESS. TO THE CONTRARY, THE LIST OF PRIORITIES (DSP) RECENTLY ISSUED BY BKPM (JAKARTA 3360) ACCORDS PRIORITY RATING TO A VARIETY OF INVESTMENT, BUT DOES NOT, FOR EXAMPLE, DIFFERENTIATE BETWEEN THE MANUFACTURE OF HAND TOOLS AND OF MACHINE TOOLS, BOTH OF WHICH ARE PRIORITY INVESTMENTS (I.E., ELIGIBLE TO RECEIVE ALL THE INVESTMENT INCENTIVES OFFERED). THE INCENTIVES TO INVEST IN A BILLION DOLLAR PETROCHEMICAL COMPLEX OR AN INTEGRATED IRON AND STEEL INDUSTRY ARE, ON PAPER AT LEAST, NO GREATER THAN A VENTURE IN RAISING DIARY CATTLE OR IN BREEDING POULTRY.

5. IN ADDITION TO THE "BASIC" INDUSTRIES, OTHERS MENTIONED PROMINENTLY IN THE PUBLICATION MENTIONED PARA 3 ABOVE, ARE IMPORT SUBSTITUTE, EXPORT EXPANDING (WHICH UPGRADE THROUGH INDUSTRIAL PROCESSING TRADITIONAL EXPORT COMMODITIES) AND HANDICRAFTS, BUT AGAIN, NO SPECIFICS REGARDING PRIORITY
CONFIDENTIAL

RANKINGS ARE INDICATED. PERHAPS THE MOST REVEALING COMMENT

IN THE DOCUMENT, UNDER THE HEADING OF PROMOTION OF ENTREPRENEURSHIP, IS THAT THE "LONG TERM INDUSTRIAL STRUCTURE IS EXPECTED TO LEAN MORE HEAVILY TOWARDS SMALL AND MEDIUM SIZED INDUSTRIES, RATHER THAN TO LARGE INDUSTRIES." THERE IS NO EXPANSION OF THIS REMARK NOR ANY INDICATION WHETHER LARGE INDUSTRIES ARE ACTIVELY TO BE DOWNGRADED OR WHETHER IT IS FELT THEY WILL HAVE OUTLIVED THEIR USEFULNESS AFTER A CERTAIN NUMBER OF YEARS.

6. WHEN ASKED RECENTLY BY THE AMBASSADOR IF THE GOI HAD DETERMINED SPECIFIC PROJECTS IN ITS DEVELOPMENT PLAN FOR WHICH IT WOULD LIKE TO ATTRACT FOREIGN INVESTMENT, ECONOMIC MINSTER WIDJOJO REPLIED NEGATIVELY. HE SAID THE LISTING OF INVESTMENT PRIORITIES WAS PURPOSEFULLY ON THE BASIS OF MAJOR CATEGORIES SO AS TO LEAVE TO PROSPECTIVE INVESTORS THE DECISION ON PARTICULAR PROJECTS. THE EXCSPTION TO THIS POLICY, WIDJOJO SAID, WAS MAJOR PROJECTS SUCH AS FOUND IN PETROCHEMICAL FIELD.

7. COMMENT. WE HAVE NO DOUBT THAT LARGE PROJECTS WHICH INVOLVE PROCESSING OF RAW MATERIALS OR WHICH OFFER OPPORTUNITIES FOR BACKWARD INTEGRATION ARE INDEED VERY WELCOME TO THE GOI. BUT THE GOVERNMENT HAS NOT YET PRODUCED AN INDUSTRIAL PLAN WHICH PROCEEDS FROM THE PRIMARY TO THE SECONDARY AND TERTIARY STAGES.

8. WITH REGARD TO BALANCE OF PAYMENTS SURPLUS FOR FY 1976/77, $655 MILLION FIGURE BASED ON NOVEMBER ESTIMATE. MORE RECENT UNOFFICIAL ESTIMATE BY KUHN LOEB AND OTHERS PUTS SURPLUS

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

AT OVER $800 MILLION.
NEWSOM

CONFIDENTIAL

NNN

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: REPORTS, PETROLEUM PRODUCTION, INDUSTRIAL PRODUCTION, ECONOMIC DEVELOPMENT, PROGRAMS (PROJECTS)
Control Number: n/a
Copy: SINGLE
Sent Date: 23-Mar-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977JAKART03693
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D770099-0411
Format: TEL
From: JAKARTA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770332/aaaabbfh.tel
Line Count: 172
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 2fa4aab3-c288-dd11-92da-001cc4696bcc
Office: ACTION EA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 77 STATE 59034, 77 JAKARTA 3574
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 10-Feb-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3026881
Secure: OPEN
Status: NATIVE
Subject: WORLD BANK\'S 1977 INDONESIAN REPORT
TAGS: EAID, ECON, ID, IBRD
To: STATE
Type: TE
vdkvgwkey: odbc://SAS/SAS.dbo.SAS_Docs/2fa4aab3-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009